

**CITY OF FONDA, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

**T. P. ANDERSON & COMPANY, P.C.  
Certified Public Accountants**

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## **CITY OF FONDA, IOWA**

### **OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Wolf	Mayor	Dec 2015
Ethan Bartek	Council Member	Dec 2015
Rod Wells	Council Member	Dec 2015
Angela Podraza	Council Member	Dec 2015
Logan Nehman	Council Member	Dec 2017
Jamie Tauber	Council Member	Dec 2017
Phyllis Menke	Clerk / Treasurer	Indefinite
James C. Hudson	Attorney	Indefinite



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fonda, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

### Basis of Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2013.

### Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fonda, Iowa as of June 30, 2014, and the respective changes in its cash basis financial position for the year ended in accordance with the basis of accounting described in Note 1.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fonda's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 11 and 21 through 22, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 2, 2015 on our consideration of the City of Fonda's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fonda's internal control over financial reporting and compliance.

*T.P. Anderson & Company, P.C.*

January 2, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Fonda, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City does not have, and is not required to have, an audit on an annual basis, much of the information included in this analysis is not easily comparable to prior years. Should the city choose to have audits in consecutive years, comparisons would be more meaningful and would go farther to explain the City's financial position and results of operations.

### **2014 FINANCIAL HIGHLIGHTS**

- Revenues excluding bond proceeds of the City's governmental activities were approximately \$470,000. Over 70% of total revenues were received from property taxes of approximately \$170,000 and intergovernmental receipts of approximately \$160,000.
- Governmental activity disbursements were approximately \$491,000 in fiscal 2014. Comprising a majority of the total disbursement balance were 25% for public safety and 24% for general government activities.
- The City's total cash basis net position increased 192%, or approximately \$697,000 from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$684,000 and the cash basis net position of the business type activities increased by approximately \$13,000. The large increase in the cash balance year over year was a result of general obligation bond proceeds being received of approximately \$637,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the

City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste, waterworks, electric, sanitary sewer and storm sewer systems. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Employee Benefits, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds include a Statement of Cash Receipts,



## Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the solid waste, water, electric, sanitary sewer and storm sewer funds.

The required financial statement for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from a deficit of \$254,630 to a surplus of \$429,509. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2014
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 59
Capital grants, contributions and restricted interest	76
Operating grants, contributions and restricted interest	84
General receipts:	
Property tax	170
Tax increment financing	5
Local option sales tax	51
Unrestricted investment earnings	1
Other general receipts	24
Proceeds from long term debt	637
Total receipts	1,107
Disbursements:	
Public safety	125
Public works	86
Health and social services	2
Culture and recreation	86
Community and economic development	13
General government	116
Debt service	11
Capital projects	52
Total disbursements	491
Change in cash basis net position before transfers	616
Transfers, net	68

Change in cash basis net position

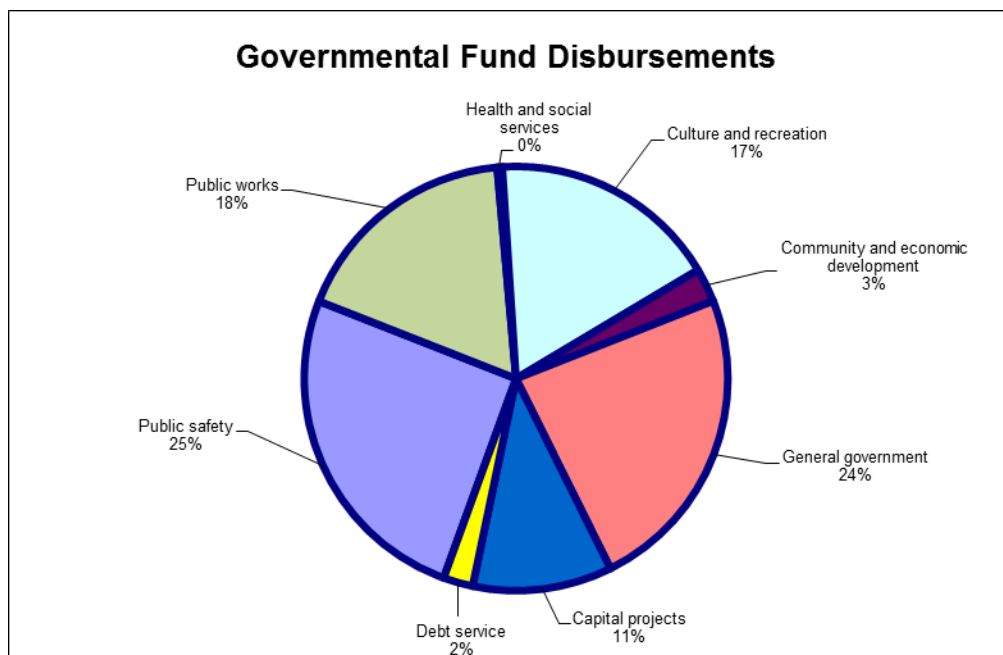
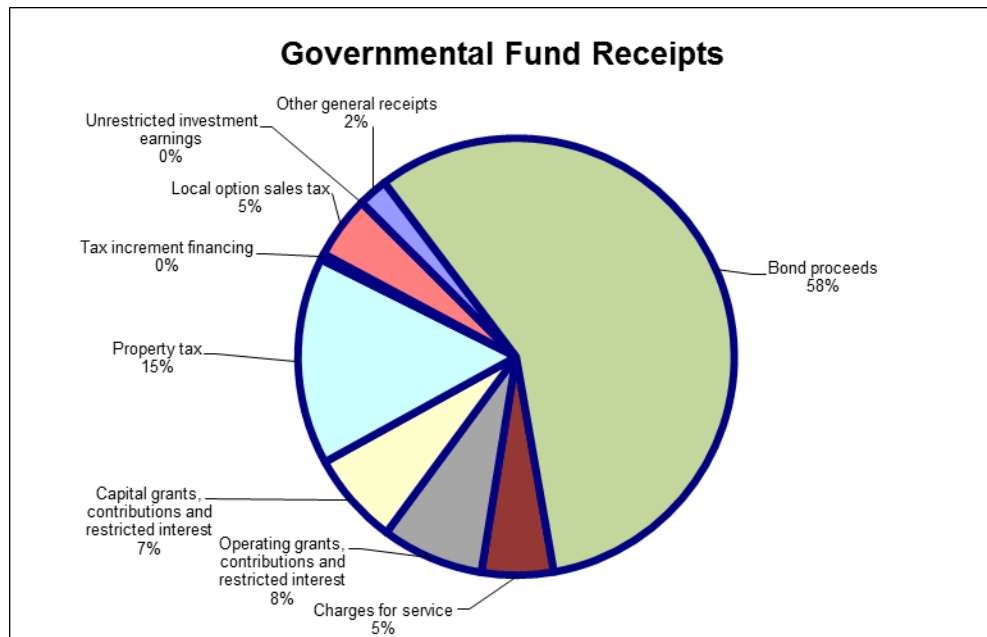
684

Cash basis net position beginning of year

(255)

Cash basis net position end of year

\$ 429



The cost of all governmental activities this year was \$491,000. However, as shown in the Cash Basis Statement of Activities and Net Position on page 12, the amount taxpayers ultimately financed for these activities was only 272,000 because some of the cost was paid by those directly benefited from the programs (59,000) or by other governments and organizations that subsidized certain programs with

grants, contributions and restricted interest (\$160,000). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$170,000 in tax (some of which could only be used for certain programs) and with other receipts, such as bond proceeds, interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service:	
Solid waste	\$ 69
Electric	457
Water	106
Sewer	58
Storm sewer	1
General receipts:	
Proceeds from long term debt	42
Total receipts	<u>733</u>
Disbursements and transfers:	
Solid Waste	60
Electric	387
Water	138
Sewer	67
Total disbursements	<u>652</u>
Change in cash basis net position before transfers	81
Transfers, net	(68)
Change in cash basis net position	13
Cash basis net position beginning of year	<u>617</u>
Cash basis net position end of year	<u>\$ 630</u>

Total business type activities receipts for the fiscal year were \$733,000. The cash balance increased by approximately \$13,000 from the prior year.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fonda completed the year, its governmental funds reported a combined fund balance of \$429,509, an increase of approximately \$684,000 from last year's deficit of \$254,630. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$36,174 from the prior year, decreasing the deficit

balance to \$389,068. The reduction was similar to that which was budgeted for the year.

- The Special Revenue, Road Use Tax Fund cash balance increased by \$654,596 to a balance of \$742,098 at June 30, 2014. The large increase in the cash balance year over year was a result of general obligation bond proceeds being received of approximately \$637,000.
- The Special Revenue, Local Option Sales Tax Fund balance increased by \$33,000 during the year. This was a result of receipts collected outweighing the transfers made to debt service and the proprietary water fund.
- The Special Revenue, Employee Benefits Fund balance had a slight decrease during the year of \$761.
- The Capital Projects Fund cash balance decreased from the prior year by approximately \$30,000. This was a result of spending grant funds that were received in the previous year.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$17,039 primarily as a result of receiving loan proceeds of approximately \$42,000 during the year. The loan proceeds were received from a preliminary loan with Iowa Finance Authority to aid in the planning and design of the water improvement project.
- The Sewer Fund cash balance decreased this fiscal year by \$9,096 as a result of regular operations during the year.
- The Solid Waste Fund cash balance increased by \$8,863 as a result of regular operations during the year.
- The Electric Fund cash balance decreased by \$4,903 primarily as a result of interfund transfers out of approximately \$75,000 during the year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2014 and resulted in increased disbursements of \$74,700 due to an increase in capital projects. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, general government, capital projects and business type activities functions.

### **DEBT ADMINISTRATION**

At June 30, 2014, the City had approximately \$725,000 in bonds and other long-term debt outstanding.

Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30, 2014
Rural Economic Development Loan	\$ 46
SRF Preliminary Planning & Design Loan	42
General Obligation Debt	637
Total	<u>\$ 725</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$684,451 and its outstanding general obligation debt is \$637,000.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when establishing the fiscal year 2015 budget, tax rates and fees charged for various City activities. A conservative approach was used and a balanced budget is anticipated.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The City's financial statements are designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 104 West Second Street, P.O. Box 367, Fonda, IA 50540 or telephone (712) 288-4466.

## **Financial Statements**

**CITY OF FONDA, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 124,683	-	5,047	-
Public works	86,587	-	63,008	21,095
Health and Social Services	1,850	-	-	-
Culture and recreation	85,937	-	10,776	53,218
Community and economic development	12,687	-	5,000	-
General government	115,963	59,080	-	-
Capital projects	52,264	-	-	1,750
Debt service	11,111	-	-	-
Total governmental activities	491,082	59,080	83,831	76,063
Business type activities:				
Solid waste	60,487	69,350	-	-
Water	137,719	105,917	-	-
Electric	386,689	456,599	-	-
Sewer	67,224	58,128	-	-
Storm Sewer	-	-	-	698
Total business type activities	652,119	689,994	-	698
Total	\$ 1,143,201	749,074	83,831	76,761
<b>General Receipts</b>				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond/loan proceeds				
Miscellaneous				
Transfers, net				
Total general receipts and transfers				
Change in cash basis net assets				
Cash beginning of year				
Cash end of year				
Cash Basis Net Assets				
Restricted				
Expendible				
Street				
Capital Projects				
Other purposes				
Unrestricted				

See Notes To Financial Statements

**Exhibit A**

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(119,636)	-	(119,636)
(2,484)	-	(2,484)
(1,850)	-	(1,850)
(21,943)	-	(21,943)
(7,687)	-	(7,687)
(56,883)	-	(56,883)
(50,514)	-	(50,514)
(11,111)	-	(11,111)
(272,108)	-	(272,108)
-	8,863	8,863
-	(31,802)	(31,802)
-	69,910	69,910
-	(9,096)	(9,096)
-	698	698
-	38,573	38,573
(272,108)	38,573	(233,535)
169,950	-	169,950
5,081	-	5,081
51,445	-	51,445
314	349	663
637,000	41,914	678,914
24,222	-	24,222
68,235	(68,235)	-
956,247	(25,972)	930,275
684,139	12,601	696,740
(254,630)	617,241	362,611
\$ 429,509	629,842	1,059,351
742,098	-	742,098
12,836	-	12,836
78,680	-	78,680
(404,105)	629,852	225,747
\$ 429,509	\$ 629,852	\$ 1,059,361



## CITY OF FONDA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue			
	General	Road Use Tax	LOST	Employee Benefits
Receipts:				
Property tax	\$ 95,002	-	-	72,567
Tax increment financing	-	-	-	-
Other city tax	-	-	51,445	-
Licenses and permits	633	-	-	-
Use of money and property	8,309	-	-	-
Intergovernmental	95,136	63,008	-	-
Charges for service	59,080	-	-	-
Miscellaneous	11,877	-	-	-
	<u>270,037</u>	<u>63,008</u>	<u>51,445</u>	<u>72,567</u>
Disbursements:				
Public safety	103,876	-	-	20,807
Public works	15,000	59,635	-	11,952
Health and social services	1,850	-	-	-
Culture and recreation	73,573	-	-	12,364
Community and economic development	12,687	-	-	-
General government	87,758	-	-	28,205
Capital projects	-	-	-	-
Debt service	-	-	-	-
	<u>294,744</u>	<u>59,635</u>	<u>-</u>	<u>73,328</u>
Excess (deficiency) of receipts over (under) disbursements	(24,707)	3,373	51,445	(761)
Other financing sources (uses):				
Bond proceeds	-	637,000	-	-
Sale of capital assets	3,717	-	-	-
Operating transfers in	57,514	14,223	-	-
Operating transfers out	(350)	-	(18,038)	-
	<u>60,881</u>	<u>651,223</u>	<u>(18,038)</u>	<u>-</u>
Changes in cash balances	36,174	654,596	33,407	(761)
Balance beginning of year	(425,242)	87,502	36,176	9,829
Balance end of year	<u>\$ (389,068)</u>	<u>742,098</u>	<u>69,583</u>	<u>9,068</u>
Cash Basis Fund Balance				
Restricted for:				
Street	-	742,098	-	-
Capital Projects	-	-	-	-
Other purposes	-	-	69,583	9,068
Unassigned	(389,068)	-	-	-
	<u>\$ (389,068)</u>	<u>742,098</u>	<u>69,583</u>	<u>9,068</u>

See Notes to Financial Statements

Capital Project	Nonmajor Governmental Funds	Total
-	2,381	169,950
-	5,081	5,081
-	-	51,445
-	-	633
-	-	8,309
1,750	-	159,894
-	-	59,080
-	-	11,877
1,750	7,462	466,269
-	-	124,683
-	-	86,587
-	-	1,850
-	-	85,937
-	-	12,687
-	-	115,963
52,264	-	52,264
-	11,111	11,111
52,264	11,111	491,082
(50,514)	(3,649)	(24,813)
-	-	637,000
-	-	3,717
20,350	11,111	103,198
-	(16,575)	(34,963)
20,350	(5,464)	708,952
(30,164)	(9,113)	684,139
43,000	(5,895)	(254,630)
12,836	(15,008)	429,509
-	-	742,098
12,836	-	12,836
-	29	78,680
-	(15,037)	(404,105)
12,836	(15,008)	429,509

## CITY OF FONDA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Proprietary Funds					
	Solid Waste	Water	Electric	Sewer	Nonmajor Storm Sewer	Total
Receipts						
Charges for service	\$ 67,859	98,848	443,169	57,505	-	667,381
Miscellaneous	1,491	7,069	13,430	623	698	23,311
	<u>69,350</u>	<u>105,917</u>	<u>456,599</u>	<u>58,128</u>	<u>698</u>	<u>690,692</u>
Disbursements						
Total operating disbursements	<u>60,487</u>	<u>100,986</u>	<u>386,689</u>	<u>67,224</u>	<u>-</u>	<u>615,386</u>
	<u>60,487</u>	<u>100,986</u>	<u>386,689</u>	<u>67,224</u>	<u>-</u>	<u>615,386</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	8,863	4,931	69,910	(9,096)	698	75,306
Non-operating receipts (disbursements):						
Interest on investments	-	-	349	-	-	349
Capital projects	-	(36,733)	-	-	-	(36,733)
	<u>-</u>	<u>(36,733)</u>	<u>349</u>	<u>-</u>	<u>-</u>	<u>(36,384)</u>
Excess (deficiency) of receipts over (under) disbursements	8,863	(31,802)	70,259	(9,096)	698	38,922
Other financing sources (uses):						
Loan proceeds	-	41,914	-	-	-	41,914
Operating transfers in	-	6,927	-	-	-	6,927
Operating transfers out	-	-	(75,162)	-	-	(75,162)
	<u>-</u>	<u>48,841</u>	<u>(75,162)</u>	<u>-</u>	<u>-</u>	<u>(26,321)</u>
Changes in cash balances	8,863	17,039	(4,903)	(9,096)	698	12,601
Balance beginning of year	41,232	(37,282)	658,020	(12,556)	(32,173)	617,241
Balance end of year	<u>\$ 50,095</u>	<u>(20,243)</u>	<u>653,117</u>	<u>(21,652)</u>	<u>(31,475)</u>	<u>629,842</u>
Cash Basis Fund Balances						
Unrestricted	\$ 50,095	(20,243)	653,117	(21,652)	(31,475)	629,842
Total cash basis fund balance	<u>\$ 50,095</u>	<u>(20,243)</u>	<u>653,117</u>	<u>(21,652)</u>	<u>(31,475)</u>	<u>629,842</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**(1) Summary of Significant Accounting Policies**

The City of Fonda is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides solid waste, electric, water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Fonda has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: MIDAS Council of Governments, Pocahontas County E911 Board, Iowa Public Power Agency (IPPA) and Fonda Fire District Board.

**B. Basis of Presentation**

**Government-wide Financial Statements** – The Cash Basis Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

This Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require them to be maintained permanently by the City.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for employee benefits paid for using property tax levied specifically for that purpose.

The Local Option Sales Tax Fund (LOST) is used to account for the receipt and disbursement of local option sales tax dollars.

The Capital Projects fund is used to account for receipts and disbursements relating to the park and street improvement projects of the City.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste disposal system.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric distribution system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Fonda, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Nonspendable*- Amounts which cannot be spent because they are legally or contractually required to be maintained.

*Restricted*- Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

*Unassigned*- All amounts not included in the preceding classifications.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, general government, capital projects and business-type activities.

F. Subsequent Events

City management has evaluated events and transactions for potential recognition or disclosure through January 2, 2015, the date the financial statements were issued.

**(2) Cash and Pooled Investments**

The City's deposits at June 30, 2014 (which include certificates of deposit totaling \$325,517) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for revenue bond and other long-term debt are as follows:

Year Ending June 30.	Rural Economic Development Note		General Obligation Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 11,111	\$ -	\$ -	\$ 17,783	\$ 11,111	\$ 17,783
2016	11,111	-	63,000	19,110	74,111	19,110
2017	11,111	-	65,000	17,220	76,111	17,220
2018	11,111	-	66,000	15,270	77,111	15,270
2019	1,852	-	68,000	13,290	69,852	13,290

# CITY OF FONDA, IOWA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

2020	-	-	71,000	11,250	71,000	11,250
2021	-	-	73,000	9,120	73,000	9,120
2022	-	-	75,000	6,930	75,000	6,930
2023	-	-	77,000	4,680	77,000	4,680
2024	-	-	79,000	2,370	79,000	2,370
	<u>\$ 46,296</u>	<u>\$ -</u>	<u>\$ 637,000</u>	<u>\$ 117,023</u>	<u>\$ 683,296</u>	<u>\$ 117,023</u>

The Rural Economic Development Note is from the City of Pocahontas and financed the construction of the Fire/EMS building. The original amount of the note was \$100,000 at 0.00% interest, and was signed on August 14, 2008. Monthly payments of \$926 are required to maturity on this note. The note is secured by a lien on real estate and improvements with an original cost of approximately \$259,000.

On December 20, 2013 the City obtained a preliminary Water Revenue Loan and Disbursement Agreement Anticipation Project Note with Iowa Finance Authority in the amount up to \$200,000. The note was obtained for the purpose of paying authorized costs in connection with planning and designing improvements and extensions to the Municipal Waterworks System. As of June 30, 2014, the City received \$41,914 from the loan. Principal balances outstanding on the note bear interest at the rate of 0% and are payable in full at the earlier of the execution of the final construction note or three years. The City expects to execute the final construction note during the next fiscal year at which point the amount owed will be netted against the final note proceeds.

### (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$22,864, \$20,556, and \$19,420 respectively, equal to the required contributions for each year.

### (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until they are paid.



## CITY OF FONDA, IOWA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 8,549

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(6) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2014 is as follows:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Proprietary:	
	Electric	\$ 55,162
	Emergency	2,352
		<u>57,514</u>
Debt Service	LOST	11,111
Proprietary:		
Water	LOST	6,927
Road Use Tax	TIF	14,223
Capital Projects	Proprietary:	
	Electric	20,000
	General	<u>350</u>
		20,350
		<u>\$ 110,125</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the funds.

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,816 during the year ended June 30, 2014.

**(8) Risk Management**

The City of Fonda is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

any of the past three fiscal years.

**(9) Deficit Fund Balance**

The General Fund had a deficit balance of \$389,068 at June 30, 2014. The deficit in the General Fund is due to disbursements exceeding the receipts over a number of years. Additionally, the Tax Increment Financing Fund had a deficit balance of \$15,037 at June 30, 2014. The City plans to receive TIF taxes for the certified internal loan during the next fiscal year.

The Enterprise Funds, Water, Sewer and Storm Sewer, had deficit balances of \$20,243, \$21,652 and \$31,475, respectively as of June 30, 2014. The City has plans to increase water and sewer rates in FY 2015 to help decrease the deficit balances in these funds. The deficit balances in the Storm Sewer fund is a result of a onetime cost sharing project with the DOT. The City does not currently offer storm sewer utility services but continues to determine if one should be implemented.

**(10) Property Taxes**

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Fonda. Property taxes become liens on property as of July 1, 2013 and are payable in September and March of the fiscal year. The valuation for the taxes were based on January 1, 2012 assessed property valuations, and are based on a certified budget from March of 2013.

**(11) Operating Lease**

The City leases a copy machine under an operating lease agreement calling for 63 monthly payments of \$130. Future minimum lease payments due on the above operating leases are as follows:

Year Ended June 30,	Amount
2015	\$ 1,558
2016	390
Total	<u>\$ 1,948</u>

**(12) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions- an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## **Other Information**

**CITY OF FONDA, IOWA**

**Budgetary Comparison Schedule of Receipts, Disbursements, and Changes  
in Balances - Budget and Actual (Cash Basis)  
All Government Funds and Proprietary Funds**

**OTHER INFORMATION  
Year Ended June 30, 2014**

	Governmental Funds Activity	Proprietary Funds Activity	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 169,950	-	169,950	161,793	161,793	8,157
Tax increment financing	5,081	-	5,081	5,140	5,140	(59)
Other city tax	51,445	-	51,445	65,959	65,959	(14,514)
Licenses and permits	633	-	633	1,277	1,277	(644)
Use of money and property	8,309	349	8,658	12,900	12,900	(4,242)
Intergovernmental	159,894	-	159,894	123,840	184,840	(24,946)
Charges for service	59,080	667,381	726,461	726,525	734,525	(8,064)
Special assessments	-	-	-	30,000	30,000	(30,000)
Miscellaneous	11,877	23,311	35,188	33,350	14,350	20,838
Total receipts	466,269	691,041	1,157,310	1,160,784	1,210,784	(53,474)
Disbursements:						
Program						
Public Safety	124,683	-	124,683	126,313	123,202	1,481
Public Works	86,587	-	86,587	579,876	579,876	(493,289)
Health and Social Services	1,850	-	1,850	2,325	2,325	(475)
Culture & Recreation	85,937	-	85,937	99,422	144,422	(58,485)
Community & economic development	12,687	-	12,687	11,250	12,950	(263)
General government	115,963	-	115,963	115,642	115,642	321
Debt Service	11,111	-	11,111	-	11,111	-
Capital projects	52,264	-	52,264	-	20,000	32,264
Business-type activities	-	652,119	652,119	622,370	622,370	29,749
Total Disbursements	491,082	652,119	1,143,201	1,557,198	1,631,898	(488,697)
Excess (deficiency) of receipts over disbursements	(24,813)	38,922	14,109	(396,414)	(421,114)	435,223
Other financing sources, net	708,952	(26,321)	682,631	499,940	526,440	156,191
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	684,139	12,601	696,740	103,526	105,326	591,414
Balance - beginning of year	(254,630)	617,241	362,611	560,811	361,374	1,237
Balance - end of year	\$ 429,509	629,842	1,059,351	664,337	466,700	592,651

See Accompanying Independent Auditor's Report

## CITY OF FONDA, IOWA

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each major Special Revenue Fund and each major Capital Project Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by \$74,700. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, general government, capital projects and business type activities functions.

## **Supplementary Information**

## CITY OF FONDA, IOWA

Schedule 1

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue		Debt Service	Total
	TIF	Emergency		
Receipts:				
Property tax	\$ -	2,381	-	2,381
Tax increment financing	5,081	-	-	5,081
	5,081	2,381	-	7,462
Disbursements:				
Capital projects	-	-	-	-
Debt service	-	-	11,111	11,111
	-	-	11,111	11,111
Excess (deficiency) of receipts over (under) disbursements	5,081	2,381	(11,111)	(3,649)
Other financing sources (uses):				
Operating transfers in	-	-	11,111	11,111
Operating transfers out	(14,223)	(2,352)	-	(16,575)
	(14,223)	(2,352)	11,111	(5,464)
Excess of receipts and other financing sources over disbursements and othe financing uses	(9,142)	29	-	(9,113)
Balance beginning of year	(5,895)	-	-	(5,895)
Balance end of year	\$ (15,037)	29	-	(15,008)
Cash Basis Fund Balance				
Restricted:				
Other purposes	-	29	-	29
Unassigned	(15,037)	-	-	(15,037)
	\$ (15,037)	29	-	(15,008)

See Notes to Financial Statements

## CITY OF FONDA, IOWA

## SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds: Street Improvement	June 2, 2014	3.00%	\$ 637,000	<u>\$ -</u>	<u>\$ 637,000</u>	<u>\$ -</u>	<u>\$ 637,000</u>	<u>\$ -</u>	<u>\$ -</u>
Rural Economic Development Loan Fire/EMS building	August 14, 2008	0.00%	\$ 100,000	<u>\$ 57,407</u>	<u>\$ -</u>	<u>\$ 11,111</u>	<u>\$ 46,296</u>	<u>\$ -</u>	<u>\$ -</u>
SRF Planning & Design Loan Water Improvements	December 20, 2013	0.00%	\$ 200,000	<u>\$ -</u>	<u>\$ 41,914</u>	<u>\$ -</u>	<u>\$ 41,914</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.



CITY OF FONDA, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2014

Year Ending June 30,	General Obligation Bonds Street Improvement		Rural Economic Development Note	
	Issued June 2, 2014		Issued August 15, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2015	3.00%	\$ -	0.00%	\$ 11,111
2016	3.00%	63,000	0.00%	11,111
2017	3.00%	65,000	0.00%	11,111
2018	3.00%	66,000	0.00%	11,111
2019	3.00%	68,000	0.00%	1,852
2020	3.00%	71,000	-	-
2021	3.00%	73,000	-	-
2022	3.00%	75,000	-	-
2023	3.00%	77,000	-	-
2024	3.00%	79,000	-	-
		<u>\$ 637,000</u>		<u>\$ 46,296</u>

## CITY OF FONDA, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST YEAR

	<u>2014</u>
Receipts	
Property tax	\$ 169,950
Tax increment financing	5,081
Other city tax	51,445
Licenses and permits	633
Use of money and property	8,309
Intergovernmental	159,894
Charges for service	59,080
Miscellaneous	15,594
	<u>\$ 469,986</u>
Disbursements:	
Operating:	
Public safety	\$ 124,683
Public works	86,587
Health and social services	1,850
Culture and recreation	85,937
Community and economic development	12,687
General government	115,963
Capital projects	52,264
Debt service	11,111
	<u>\$ 491,082</u>

See Accompanying Independent Auditor's Report.



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fonda, Iowa as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 2, 2015. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fonda's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fonda's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fonda's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fonda's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fonda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Fonda's Response to the Findings

The City of Fonda's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses we did not audit the responses and accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fonda during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*T.P. Anderson & Company, P.C.*

January 2, 2015

CITY OF FONDA, IOWA

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2014

**Part I: Summary of the Independent Auditor's Results:**

- (a) As a result of the City's accounting records not being audited annually, as permitted by the Code of Iowa, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2013, therefore modified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. general accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF FONDA, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14      Segregation of Duties - We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

Criteria - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition - There is a limited staff size that makes having an appropriate segregation of duties difficult for the City.

Effect - The City's internal control system is not as strong as it could be with a proper segregation of duties.

Recommendation - The City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-14      Financial Reporting - During the audit, we identified a bank account that was not being included in the financial reporting of the governmental funds of the City. The bank account was used initially to record donations for a Christmas display of \$200. The funds were never used and this year the City consolidated the donations with donations made for pool equipment. Up until this year, no money has ever been withdrawn from the account. The total balance of the account at June 30, 2014 was \$653.

Criteria - An internal control system that is functioning properly should detect any non-compliance in a timely manner.

Condition - There is no process implemented for identifying that all bank accounts are included and reconciled in the City's records.

Effect - A material weakness in the City's internal control.

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Recommendation – We recommend the City implement regular procedures to ensure all bank accounts are being included in financial reporting.

Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

II-C-14      Reconciliation of Bank Accounts – The City did not complete formal bank account reconciliations at June 30, 2014.

Criteria - An internal control system that is functioning properly should detect any non-compliance in a timely manner.

Condition – There is not a formal process in place to identify regular month-end practices when the City Clerk is absent.

Effect – A material weakness in the City’s internal control.

Recommendation – Although the City does have a regular process of reconciling the bank accounts each month, we recommend the City implement a month-end checklist to monitor the procedures required to be completed if the Clerk has to be out of the office during that time.

Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

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**Part III: Other Findings Related to Statutory Reporting:**

III-A-14    Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, general government, capital projects and business type activities functions.

Criteria - Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Cause – The City did not discontinue issuing disbursements when the budgeted limits were reached.

Effect – The City did not comply with Chapter 384.20 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-14    Questionable Disbursements - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-14    Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-D-14    Business Transactions – We noted that the City conducted business with the Mayor. Business transactions between the City and City officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Don Wolf, Mayor, Owner of Ray's Plumbing & Heating	Sewer installation	\$ 4,816

Criteria - Chapter 362.5(3)(j) of the Code of Iowa prohibits any city officer or employee from having a contract of job of work with the City. Exceptions are made to this regulation if the total annual purchase is less than \$2,500 or if the work was contracted under competitive bid.

Cause – Limited providers of this type of service are available in the City of Fonda.



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Effect - The transactions with the City official above appear to be in violation of Iowa Code Section 362.5(3)(j), and are not covered under the aforementioned exceptions.

Recommendation – The City should consult with their attorney to see what actions, if any, needs to be taken to remedy the issue.

Response – We will consult our attorney

Conclusion – Response accepted.

III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-14 Financial Condition – The following funds had a deficit fund balance at June 30, 2014:

<u>Fund</u>	<u>Deficit Balance</u>
General	\$389,068
Tax Increment Financing	\$15,037
Water	\$20,243
Sewer	\$21,652
Storm Sewer	\$31,475

Criteria – Deficit fund balances may indicate funds that are not in sound financial condition.

Cause – Certain funds have run a deficit in anticipation of better financial results in the future.

Effect - Certain City fund balances appear to not be in sound financial position.

Recommendation – The City should investigate alternatives to eliminate the deficit balances in order to return these funds to sound financial positions.

Response – We will review alternatives to bring these funds' balances back into a positive position.

Conclusion – Response accepted.